

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund and the second largest in the world, with assets at June 30, 2001 of approximately \$156 billion.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.3 million people and more than 2,400 public employers. The System also operates eight offices located in San Francisco, Glendale, Orange County, Sacramento, San Bernardino, San Diego, Mountain View, and Fresno.

CalPERS is led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex officio members.

Our membership consists of 916,632 active and inactive members from the State, school districts, and local public agencies, and 369,278 retirees, beneficiaries, and survivors. Established by legislation in 1931, the System became operational in 1932 for State employees only. In 1939, other public agencies were allowed to contract with CalPERS to provide retirement benefits for their employees. We began administering health benefits to State employees in 1962 under the Public Employees' Medical and Hospital Care Act. Local public agencies joined in our health program on a contract basis five years later.



California Public Employees'
Retirement System

Annual Investment Report Year Ended June 30, 2001



### Message

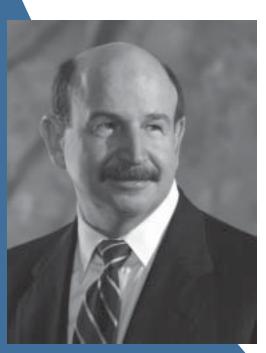
On behalf of the California Public Employees' Retirement System's Investment Operations, I am pleased to present reports on our Summary of Investments, California Investments, and our investment performance, for the period ended June 30, 2001.

This data was compiled by our Investment Operations staff, CalPERS pension consultant Wilshire Associates, and our master custodian State Street Bank & Trust Company. It is presented in accordance with statues found in California Public Employees' Retirement Law.

Our investment portfolio fell back to \$156 billion for the fiscal year ended June 30, 2001, a 7.2 percent drop attributable to a lackluster stock market.

Nevertheless, our long-term investment returns still remain solid and positive. We earned a 10.6 percent return for the 5-year period ended June 30, 2001, and an 11.4% return for the 10-year period. Our long-term performance faired better than most multi-billion public pension funds according to data compiled by the Trust Universe Comparison Service (TUCS).

Our investment portfolio remains in good shape and well ahead of where we need to be in terms of growth of assets and long-term returns. We remain confident in our investment strategy and in our ability to effectively manage the System's assets in the current market environment.



Daniel M. Szente
Chief Investment Officer

Clearly, our performance for the fiscal year interjected a sense of reality into what has been a fairy-tale environment in the equity markets. Equity market returns in particular have been abnormally high in recent years and a return to more normal conditions was expected. We have always known that we would have to give back some of the spectacular stock market returns, and we have planned for this event by maintaining a well diversified investment portfolio.

At the end of the year, U.S. and international stock investments represented approximately 59 percent of our assets. U.S. and international bonds made up 20 percent of our investments, while real estate and private equity investments represented 8 percent and 5 percent, respectively.

We continued to invest in the State of California, providing a strong economic boost for California's growth. At the end of the year, we had nearly \$21 billion invested in California entrepreneurial businesses, real estate, housing, and stocks and bonds in corporations that make California their home.

Sincerely,

Daniel M. Szente

Chief Investment Officer

### **Annual Investment Report**

### **CalPERS Board of Administration**

William Dale Crist, President

Robert F. Carlson, Vice President

Sidney L. Abrams

Philip Angelides

Willie L. Brown, Jr.

Kathleen Connell

Rob Feckner

Michael Flaherman

Sean Harrigan

Marty Morgenstern

Mike Quevedo, Jr.

William Rosenberg

Charles P. Valdes

### **Investment Committee**

All members of the Board serve on the Investment Committee. Michael Flaherman serves as the Committee Chair and Sean Harrigan is Vice Chair. This Committee reviews investment transactions, the work of staff, external managers and consultants, and establishes investment policy, strategy and asset allocation.

### **CalPERS Executive Staff**

James E. Burton

Chief Executive Officer

James H. Gomez

Deputy Executive Officer

Robert Aguallo

Assistant Executive Officer, Investment Office

Vincent P. Brown

Assistant Executive Officer,

Financial & Administrative Services

Allen D. Feezor

Assistant Executive Officer, Health Benefit Services

Kayla J. Gillan

General Counsel

Barbara Hegdal

Assistant Executive Officer, Member & Benefit Services

Patricia K. Macht

Chief, Office of Public Affairs

Ron Seeling

Chief Actuary, Actuarial & Employer Services

Daniel Szente

Chief Investment Officer, Investment Office

Robert D. Walton

Assistant Executive Officer

Governmental Affairs, Planning & Research

### Senior Investment Staff

Denise Arend

Chief, Investment Operations

Mark Anson

Senior Investment Officer, Public Equity

Curtis Ishii

Senior Investment Officer, Fixed Income

Rick Hayes

Senior Investment Officer

Alternative Investment Management

Michael McCook

Senior Investment Officer, Real Estate

### Consultants

Wilshire Associates, Pension Consultant

Pension Consulting Alliance/Kenneth Leventhal

& Co., Real Estate Consultant

Hamilton Lane Advisors, Inc.

Pacific Corporate Group, Inc.

Alternative Investment Management Program

### Custodian

State Street Bank And Trust Company

### Mainstream Domestic Active Equity Managers

Alliance Capital Management, L.P.

The Boston Company Asset Management, L.L.C.

Brown Capital Management, Inc.

Geewax, Terker & Company

Goldman Sachs Asset Management

J.P. Morgan Investment Management

Oak Associates, Ltd.

Oppenheimer Capital

Osprey Partners Investment Management

The Putnam Advisory Company, Inc.

Pzena Investment Management

### Mainstream Domestic Small-Cap Passive Equity

Dimensional Fund Advisors, Inc.

### Manager Development Program - Domestic Equity

Broadmark Asset Management Golden Capital Management

### **Hybrid Investments**

Abacus Fund Partners, L.P.

Pivotal Partners

### Corporate Governance - Domestic Equity

Relational Investors, L.L.C.

### **International Fixed Income Managers**

Baring International Investment, Ltd.

**Bridgewater Associates** 

Julius Baer Investment Management, Inc.

Mercury Asset Management

Rogge Global

Wellington Management

Western Asset Management

### **Active International Equity Managers**

Artisan Partners, L.P.

Baillie Gifford Overseas, Ltd.

GE Asset Management

Grantham, Mayo, Van Otterloo Co., L.L.C.

Mastholm Asset Management

Oechsle International Advisors

Schroder Investment North America, Inc.

The Putnam Advisory Co., L.L.C.

Weiss Peck Greer, L.L.C.

## Active International Equity Managers – Pacific Basin

Blackrock International, Ltd.

Newport Pacific Management, Inc.

Nomura Asset Management U.S.A. Inc.

### Active International Equity Managers – Europe

Axa Rosenberg Investment Management, L.L.C.

Bank of Ireland Asset Management

Capital Guardian Trust Company

### Passive International Equity Managers

State Street Global Advisors

### Corporate Governance - International Equity

Active Value Capital, L.P. Hermes Lens Asset Management

### **Currency Overlay Managers**

Credit Suisse Asset Management

Pareto Partners

State Street Global Advisors

## Manager Development Program – International Equity

Arrowstreet Capital, L.P.

### Real Estate Advisors & Partners

AEW Capital Management, L.P.

Bankers Trust Co.

**Bridge Housing Corporation** 

**Buchanan Street Partners** 

CB Richard Ellis Investors Management

CIM Group, L.L.C.

CNL Net Lease Investors, L.P.

Commonwealth Pacific

General Investment & Development Advisors, Inc.

Hancock Timber Resource Group

Hearthstone Housing Partners, L.P.

Hines

Institutional Housing Partners, L.P.

Kennedy Associates Real Estate Counsel, Inc.

LaSalle Advisors Capital Management, Inc.

Lend Lease Real Estate Investments, Inc.

MacFarlane Partners

National Retail Partners, L.L.C.

Olympic Realty Advisors

**RREEF** 

Residential R.E. Partners, L.P.

Shattuck Hammond Partners

SSR Realty Advisors

The Campbell Group

The Newland Group, Inc.

**UBS** Brinson

Union Labor Life Insurance Company

Wells Fargo Housing Advisors, Inc.

Weyerhaeuser Corporation

# as of june 30, 2001 Summary of Investments

Category	Book Value	Market Value	% of Investments at Market Value
Cash Equivalents & Net Receivables/Payables			
Domestic Cash Equivalents	\$3,153,445,071	\$3,157,085,199	2.02%
International Cash Equivalents			
Cash Equivalents	\$10,364,310	\$10,353,501	0.01%
International Currency	85,603,545	84,982,254	0.05%
Total International Cash Equivalents	\$95,967,855	\$95,335,755	0.06%
Net Investment Receivables/Payables	\$211,449,560	\$211,449,560	0.14%
Total Cash Equivalents & Net Receivables/Payables	\$3,460,862,486	\$3,463,870,514	2.22%
Fixed Income			
Domestic Fixed Income	\$36,487,658,899	\$36,965,019,502	23.69%
International Fixed Income	5,290,254,493	5,035,863,773	3.23%
Total Fixed Income	\$41,777,913,392	\$42,000,883,275	26.92%
Equity			
Domestic Equity	\$36,398,246,417	\$63,077,631,347	40.43%
International Equity	24,885,667,941	27,700,412,888	17.75%
Total Equity	\$61,283,914,358	\$90,778,044,235	58.18%
Alternative Investment Management Program			
Direct Component Investments	φ1 010 (00 Π00	<b>41.511.027.20</b> /	0.070/
Domestic	\$1,313,693,732	\$1,511,037,294	0.97%
International	48,283,129	46,609,523	0.03%
Total Direct Component Investments	\$1,361,976,861	\$1,557,646,817	1.00%
Partnership Component Investments			
Domestic	\$5,502,739,617	\$5,423,578,452	3.48%
International	211,200,356	167,217,393	0.11%
Total Partnership Component Investments	\$5,713,939,973	\$5,590,795,845	3.59%
Total Alternative Investment Management Program	\$7,075,916,834	\$7,148,442,662	4.59%
Total Real Estate Programs	\$11,349,510,630	\$12,632,222,717	8.09%
Total Investment Value	\$124,948,117,700	\$156,023,463,403	100.00%
*Investment in R Street Project	\$18,359,022	\$18,359,022	
Total Investment Value	\$124,966,476,722	\$156,041,822,425	

<sup>\*</sup>In 1999, CalPERS launched its headquarters expansion project on R Street in Sacramento, California.

## portfolio of California Investments

California Community Mortgage Fund         41.           Commercial (Whole Loans/Mortgage-Backed Securities)         123.           Member Home Loan Program         1,7500           ULLICO         66.           Total Real Estate Mortgages         \$1,984.           Equity         293.           Catellus         295.           Catellus         295.           CIM Urban         125.           CNI. Net Lease Program         23.           California Urban Real Estate Initiatives         8           Kennedy         1500           Bridge         1000.           RREEF         1000.           All/Real Estate Technology Program         200           California Urban Investment Partners         200           Equity         2,901.           Single Family Housing         603.           Infill Investment Partners         100           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing AEW         15.           Total Real Estate Equity         \$6,874.           Equities         19           Alternative Investment Management Program         19           Direct Component         \$12.	Category	Market Value (Dollars in Billions)
AFL-CIO Housing Investment Trust         \$3.           California Community Mortgage Flund         41.           Commercial (Whole Loans/Mortgage-Backed Securities)         1,230.           Member Home Loan Program         1,7500.           ULLI CO         66.           Total Real Estate Mortgages         \$23.           Equity         \$23.           Carellus         \$23.           Carellus         295.           CIM Urban         125.           CIN, Net Lease Program         23.           California Urban Real Estate Initiatives         \$150.           Kennedy         150.           Bridge         100.           RREEF         100.           AlM/Real Estate Technology Program         200.           California Urban Investment Partners         200.           Equity         2,901.           Single Family Housing         603.           Infill Investment Partners         100.           Kennedy Urban         26.           Senior Housing - Shattuck Hammond         25.           Total Real Estate Equity         \$6,874.           Equities         \$12.           Partnership Component         954.           Domestic Equity         \$	Real Estate	
California Community Mortgage Fund         41.           Commercial (Whole Loans/Mortgage-Backed Securities)         123.           Member Home Loan Program         1,7500           ULLICO         66.           Total Real Estate Mortgages         \$1,984.           Equity         293.           Catellus         295.           Catellus         295.           CIM Urban         125.           CNI. Net Lease Program         23.           California Urban Real Estate Initiatives         8           Kennedy         1500           Bridge         1000.           RREEF         1000.           All/Real Estate Technology Program         200           California Urban Investment Partners         200           Equity         2,901.           Single Family Housing         603.           Infill Investment Partners         100           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing AEW         15.           Total Real Estate Equity         \$6,874.           Equities         19           Alternative Investment Management Program         19           Direct Component         \$12.	Mortgages	
Commercial (Whole Loans/Morrgage-Backed Securities)         123.3           Member Home Loan Program         1,750           ULLICO         66.           Total Real Estate Mortgages         \$1,984.3           Equity         \$23.3           Catellus         295.4           CIM Urban         125.4           CNL Net Lease Program         23.3           California Urban Real Estate Initiatives         ***           Kennedy         150.0           Bridge         100.0           RREEF         100.4           AIM/Real Estate Technology Program         200.0           California Urban Investment Partners         200.0           Equity         2,901.           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         25.           Senior Housing AEW         15.           Senior Housing - Shattuck Hammond         25.           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         \$2.0           Total Real Estate Equity         \$2.0           Domestic Equity         \$2.0           Total Real Estate & Equit	AFL-CIO Housing Investment Trust	\$3.2
Member Home Loan Program ULLICO         56.           Total Real Estate Mortgages         \$1,984.           Equity         FAFL-CIO Building Investment Trust         \$23.           AFL-CIO Building Investment Trust         \$23.           Catellus         295.           CIM Urban         125.           CNL Net Lease Program         23.           California Urban Real Estate Initiatives         Kennedy           Kennedy         150.           Bridge         100.           RREEF         100.           AlM/Real Estate Technology Program         200.           California Urban Investment Partners         200.           Equity         2,901.           Single Family Housing         603.           Infill Investment Partners         100.           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing - Shattuck Hammond         25.           Total Real Estate Mortgages & Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         \$12.           Partnership Component         \$2.           Direct Component         \$9.           Total Equities         \$9.		41.2
ULLICO         66.           Total Real Estate Mortgages         \$1,984.           Equity         323.           Catellus         295.4           CIM Urban         123.           CNI, Net Lease Program         23.           California Urban Real Estate Initiatives         150.           Kennedy         150.           Bridge         100.           RREEF         100.           AIM/Real Estate Technology Program         200.           California Urban Investment Partners         200.           Equity         2,901.           Single Family Housing         603.           Infill Investment Partners         100.           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing AEW         15.           Senior Housing AEW         15.           Senior Housing AER         5.		123.8
Total Real Estate Mortgages         \$1,984.           Equity         223.           AFL-CIO Building Investment Trust         \$23.           Catellus         295.           CIM Urban         125.           CNL Net Lease Program         23.           California Urban Real Estate Initiatives         150.0           Kennedy         150.0           Bridge         100.0           RREEF         100.4           AIM/Real Estate Technology Program         200.1           California Urban Investment Partners         200.1           Equity         2,901.2           Single Family Housing         603.           Infill Investment Partners         100.0           Kennedy Urban         26.           Senior Housing AEW         15.0           Senior Housing - Shatruck Hammond         25.1           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.4           Equities         \$1.22.           Alternative Investment Management Program         \$122.           Direct Component         \$9.54.           Domestic Equity         \$9.280.1           Total Equities         \$9.280.1           Total Equities	<del>_</del>	1,750.0
Equity	ULLICO	66.1
AFI-CIO Building Investment Trust         \$23.5           Catellus         295.4           CIM Urban         125.6           CNL Net Lease Program         23.3           California Urban Real Estate Initiatives         Kennedy           Bridge         100.0           RREEF         100.0           AIM/Real Estate Technology Program         200.0           California Urban Investment Partners         200.1           Equity         2,901.3           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.           Senior Housing AEW         15.0           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         \$1.22.           Partnership Component         954.           Domestic Equity         9.           International Equity         -           Total Real Estate & Equities         \$16,154.           Fixed Income         \$9,280.           Total Real Estate & Receivables         \$-           Corporate Bonds         766.           Member	Total Real Estate Mortgages	\$1,984.3
Catellus         295.4           CIM Urban         125.4           CNI. Net Lease Program         23.3           California Urban Real Estate Initiatives         150.4           Kennedy         150.4           Bridge         100.0           RREEF         100.0           AIM/Real Estate Technology Program         200.4           California Urban Investment Partners         200.1           Equity         2,901.2           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.5           Senior Housing AEW         15.4           Senior Housing - Shattuck Hammond         25.4           Total Real Estate Equity         \$4,890.           Total Real Estate Wortgages & Equity         \$6,874.4           Equities         \$122.           Partnership Component         \$122.           Partnership Component         \$95.4           Domestic Equity         \$9.280.1           Total Real Estate & Equities         \$16,154.6           Fixed Income         \$9.280.1           Total Equities         \$9.280.1           Total Real Estate & Equities         \$-           Corporate Bonds <td>Equity</td> <td></td>	Equity	
CIM Urban         125.4           CNL Net Lease Program         23.           California Urban Real Estate Initiatives         150.4           Kennedy         150.4           Bridge         100.4           RREEF         100.4           AlM/Real Estate Technology Program         200.1           California Urban Investment Partners         200.1           Equity         2,901.2           Single Family Housing         603.3           Infill Investment Partners         100.4           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing - Shattuck Hammond         25.4           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         **           Alternative Investment Management Program         \$122.           Direct Component         \$122.           Partnership Component         \$954.           Domestic Equity         -           Total Equities         \$9,280.           Total Equities         \$9,280.           Total Feed Income         \$9,280.           Total Real Estate & Equities         \$16,154.           Fixed Income<	AFL-CIO Building Investment Trust	\$23.9
CNL Net Lease Program       23.5         California Urban Real Estate Initiatives       150.4         Kennedy       100.0         Bridge       100.0         RREEF       100.0         AlM/Real Estate Technology Program       200.1         California Urban Investment Partners       200.1         Equity       2,901.2         Single Family Housing       603.3         Infill Investment Partners       100.0         Kennedy Urban       26.2         Senior Housing AEW       15.         Senior Housing - Shattuck Hammond       25.0         Total Real Estate Equity       \$4,890.         Total Real Estate Mortgages & Equity       \$6,874.4         Equities       \$12.2         Partnership Component       \$12.2         Partnership Component       \$12.2         Partnership Component       \$9.54.1         Domestic Equity       -         Total Real Estate & Equities       \$9,280.4         Total Equities       \$9,280.4         Total Equities       \$9,280.4         Total Equivalents & Receivables       \$-         Corporate Bonds       766.         Mortgage Pass-Through CMOs       2,112.         Treasury Bond		295.6
California Urban Real Estate Initiatives         150.0           Kennedy         150.0           Bridge         100.0           RREEF         100.0           AlM/Real Estate Technology Program         200.0           California Urban Investment Partners         200.1           Equity         2,901.2           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         \$1           Alternative Investment Management Program         \$122.           Direct Component         \$954.           Domestic Equity         \$2,03.           International Equity         -           Total Real Estate & Equities         \$9,280.1           Total Real Estate & Equities         \$9,280.1           Total Real Estate & Equities         \$9,280.1           Total Romes Erixed Income         \$9,280.1           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA		125.0
Kennedy         150.0           Bridge         100.0           RREEF         100.0           AlM/Real Estate Technology Program         200.0           California Urban Investment Partners         200.0           Equity         2,901.1           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.5           Senior Housing AEW         15.0           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$6,874.2           Equities         8           Alternative Investment Management Program         \$122.2           Direct Component         954.2           Domestic Equity         8,203.           International Equity         —           Total Real Estate & Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.4           Fixed Income         \$0           Copporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.           Treasury Bonds         —           Total Domestic Fixed Income         \$4,628.3           Interna	•	23.9
Bridge RREEF         100.0           RREEF         100.0           AlM/Real Estate Technology Program         200.0           California Urban Investment Partners         200.0           Equity         2,901.3           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.           Senior Housing AEW         15.0           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.5           Equities         **           Alternative Investment Management Program         \$122.           Partnership Component         \$122.           Partnership Component         \$954.           Domestic Equity         \$,203.           International Equity         -           Total Real Estate & Equities         \$9,280.0           Total Real Estate & Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.6           Fixed Income         \$           Cash Equivalents & Receivables         \$ -           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA <t< td=""><td></td><td></td></t<>		
RREEF         100.0           AIM/Real Estate Technology Program         200.0           California Urban Investment Partners         200.0           Equity         2,901.1           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.           Senior Housing AEW         15.           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.5           Equities         \$122.           Alternative Investment Management Program         \$122.           Partnership Component         \$9.54.3           Domestic Equity         8,203.           International Equity         -           Total Real Estate & Equities         \$9,280.1           Total Real Estate & Equities         \$9,280.1           Total Real Estate & Equities         \$-           Corporate Bonds         \$-           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.3           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.3           International Fixed	·	150.0
AIM/Real Estate Technology Program       200.0         California Urban Investment Partners       200.0         Equity       2.901.1         Single Family Housing       603.1         Infill Investment Partners       100.0         Kennedy Urban       26.5         Senior Housing AEW       15.0         Senior Housing - Shattuck Hammond       25.0         Total Real Estate Equity       \$4,890.         Total Real Estate Mortgages & Equity       \$6,874.         Equities       8122.         Partnership Component       \$122.         Partnership Component       \$9,280.0         Domestic Equity       -         International Equity       -         Total Equities       \$9,280.0         Total Real Estate & Equities       \$16,154.5         Fixed Income       \$6.0         Omestic Fixed Income       \$6.0         Cash Equivalents & Receivables       \$6.0         Corporate Bonds       766.         Member Home Loan Program - FNMA/GNMA       1,750.0         Mortgage Pass-Through CMOs       2,112.         Treasury Bonds       -         Total Domestic Fixed Income       \$4,628.3         International Fixed Income       \$6.0 </td <td></td> <td>100.0</td>		100.0
California Urban Investment Partners         200.0           Equity         2,901.3           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.3           Senior Housing AEW         15.1           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.4           Equities         8           Alternative Investment Management Program         5122.           Direct Component         95.4           Domestic Equity         8,203.           International Equity         -           Total Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.5           Fixed Income         -           Domestic Fixed Income         -           Cash Equivalents & Receivables         \$-           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.7           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.3           Total Fixed Income         \$-		100.0
Equity         2,901.3           Single Family Housing         603.3           Infill Investment Partners         100.0           Kennedy Urban         26.3           Senior Housing AEW         15.4           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         **           Alternative Investment Management Program         \$122.           Direct Component         \$954.           Partnership Component         954.           Domestic Equity         \$,203.           International Equity         -           Total Real Estate & Equities         \$9,280.0           Total Real Estate & Equities         \$9,280.0           Total Real Estate & Equities         \$9,280.0           Fixed Income         *16,154.4           Domestic Fixed Income         \$-           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.           Total Fixed Income         \$4,628.<		
Single Family Housing         603.9           Infill Investment Partners         100.0           Kennedy Urban         26.5           Senior Housing AEW         15.0           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         ***           Alternative Investment Management Program         ***           Direct Component         \$122.           Partnership Component         954.           Domestic Equity         ***           International Equity         -           Total Real Estate & Equities         \$9,280.           Total Real Estate & Equities         \$16,154.4           Fixed Income         ***           Cosponents & Receivables         \$-           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.           Mortgage Pass-Through CMOs         2,112.           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.           International Fixed Income         \$-           Total Fixed Income         \$-		
Infill Investment Partners         100.0           Kennedy Urban         26.5           Senior Housing AEW         15.0           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.6           Equities         ***           Alternative Investment Management Program         \$122.           Partnership Component         \$954.4           Domestic Equity         \$8,203.           International Equity         -           Total Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.6           Fixed Income         ***           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.5           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.3           International Fixed Income         \$4,628.3           Total Fixed Income         \$4,628.3		
Kennedy Urban       26.5         Senior Housing AEW       15.6         Senior Housing - Shattuck Hammond       25.6         Total Real Estate Equity       \$4,890.         Total Real Estate Mortgages & Equity       \$6,874.         Equities       \$122.         Alternative Investment Management Program       \$122.         Partnership Component       954.3         Domestic Equity       95.2         International Equity       -         Total Equities       \$9,280.0         Total Real Estate & Equities       \$16,154.         Fixed Income       \$0         Domestic Fixed Income       \$-         Cash Equivalents & Receivables       \$-         Corporate Bonds       766.         Member Home Loan Program - FNMA/GNMA       1,750.0         Mortgage Pass-Through CMOs       2,112.         Treasury Bonds       -         Total Domestic Fixed Income       \$4,628.3         International Fixed Income       \$-         Total Fixed Income       \$4,628.3	· ·	
Senior Housing AEW         15.0           Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.4           Equities         ***           Alternative Investment Management Program         ***           Direct Component         \$122.           Partnership Component         954.3           Domestic Equity         8,203.           International Equity         -           Total Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.5           Fixed Income         ***           Cash Equivalents & Receivables         \$-           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.0           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.5           International Fixed Income         \$-           Total Fixed Income         \$-           Total Fixed Income         \$-		
Senior Housing - Shattuck Hammond         25.0           Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.           Equities         Alternative Investment Management Program           Direct Component         \$122.           Partnership Component         954.3           Domestic Equity         8,203.           International Equity         -           Total Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.4           Fixed Income         Security           Cash Equivalents & Receivables         \$-           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.5           Treasury Bonds         -           Total Domestic Fixed Income         \$4,628.5           International Fixed Income         \$-           Total Fixed Income         \$4,628.5	·	
Total Real Estate Equity         \$4,890.           Total Real Estate Mortgages & Equity         \$6,874.4           Equities         ***           Alternative Investment Management Program         \$122.           Direct Component         \$954.           Domestic Equity         \$8,203.           International Equity         —           Total Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.4           Fixed Income         ***           Cash Equivalents & Receivables         \$-           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.2           Treasury Bonds         —           Total Domestic Fixed Income         \$4,628.3           International Fixed Income         \$4,628.3		
Total Real Estate Mortgages & Equity         \$6,874.           Equities           Alternative Investment Management Program         \$122.           Direct Component         954.           Partnership Component         954.           Domestic Equity         8,203.           International Equity         —           Total Equities         \$9,280.0           Total Real Estate & Equities         \$16,154.           Fixed Income           Cash Equivalents & Receivables         \$—           Corporate Bonds         766.           Member Home Loan Program - FNMA/GNMA         1,750.0           Mortgage Pass-Through CMOs         2,112.           Treasury Bonds         —           Total Domestic Fixed Income         \$4,628.3           International Fixed Income         \$—           Total Fixed Income         \$4,628.3		
Equities Alternative Investment Management Program Direct Component \$122 Partnership Component 954.3 Domestic Equity 8,203. International Equity —  Total Equities \$9,280.0  Total Real Estate & Equities \$16,154.4  Fixed Income Domestic Fixed Income Cash Equivalents & Receivables \$- Corporate Bonds 766. Member Home Loan Program - FNMA/GNMA 1,750.0 Mortgage Pass-Through CMOs 2,112 Treasury Bonds \$4,628.3  International Fixed Income \$4,628.3	Total Real Estate Equity	\$4,890.1
Alternative Investment Management Program       \$122.         Direct Component       \$54.3         Partnership Component       954.3         Domestic Equity       8,203.         International Equity       —         Total Equities       \$9,280.0         Total Real Estate & Equities         Fixed Income         Cash Equivalents & Receivables       \$ —         Corporate Bonds       766.         Member Home Loan Program - FNMA/GNMA       1,750.0         Mortgage Pass-Through CMOs       2,112.2         Treasury Bonds       —         Total Domestic Fixed Income       \$4,628.3         International Fixed Income       \$ 4,628.3         Total Fixed Income       \$ 4,628.3	Total Real Estate Mortgages & Equity	\$6,874.4
Direct Component       \$122.         Partnership Component       954.3         Domestic Equity       8,203.3         International Equity       —         Total Equities         Total Real Estate & Equities         Fixed Income         Cash Equivalents & Receivables         Cash Equivalents & Receivables       \$ —         Corporate Bonds       766.         Member Home Loan Program - FNMA/GNMA       1,750.0         Mortgage Pass-Through CMOs       2,112.2         Treasury Bonds       —         Total Domestic Fixed Income       \$4,628.3         International Fixed Income       \$4,628.3         Total Fixed Income       \$4,628.3	•	
Partnership Component       954.3         Domestic Equity       8,203.3         International Equity       —         Total Equities       \$9,280.0         Total Real Estate & Equities       \$16,154.4         Fixed Income       —         Cash Equivalents & Receivables       \$—         Corporate Bonds       766.         Member Home Loan Program - FNMA/GNMA       1,750.0         Mortgage Pass-Through CMOs       2,112.3         Treasury Bonds       —         Total Domestic Fixed Income       \$4,628.3         International Fixed Income       \$4,628.3	č č	
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Total Real Estate & Equities \$16,154.4  Fixed Income  Domestic Fixed Income  Cash Equivalents & Receivables \$-Corporate Bonds 766.6  Member Home Loan Program - FNMA/GNMA 1,750.0  Mortgage Pass-Through CMOs 2,112.3  Treasury Bonds  Total Domestic Fixed Income \$4,628.3  International Fixed Income \$4,628.3		
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Member Home Loan Program - FNMA/GNMA  1,750.0  Mortgage Pass-Through CMOs Treasury Bonds  Total Domestic Fixed Income \$4,628.3  International Fixed Income \$4,628.3	Cash Equivalents & Receivables	\$ —
Mortgage Pass-Through CMOs Treasury Bonds  Total Domestic Fixed Income  Superior Street Income  Total Fixed Income  \$4,628.3	÷	766.1
Treasury Bonds — Total Domestic Fixed Income \$4,628.3 International Fixed Income \$— Total Fixed Income \$4,628.3	<u>v</u>	
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International Fixed Income \$- Total Fixed Income \$4,628.3		
Total Fixed Income \$4,628.3		\$4,628.3
		<u> </u>
Total Investments \$20,782.7	Total Fixed Income	\$4,628.3
	Total Investments	\$20,782.7

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### **Investments**

### Long-Term Returns Remain Solid

The CalPERS investment portfolio fell back to approximately \$156 billion for the fiscal year ended June 30, 2001, a 7.2 percent investment loss attributable to lackluster global equity markets. Nevertheless, our long-term investment returns still remain solid and positive. We earned a 10.6 percent return for the five-year period ended June 30, 2001, and an 11.4 percent return for the 10-year period. Our long-term performance faired better than most multi-billion dollar public pension funds, according to data compiled by the Trust Universe Comparison Service.

Our investment portfolio remains in good shape and well ahead of where we need to be in terms of growth of assets and long-term returns, and we remain confident in our investment strategy and ability to effectively manage the System's assets in the current market environment.

Clearly, our performance for the fiscal year interjected a sense of reality into what has been a fairy-tale environment in the equity markets. Equity market returns in particular have been abnormally high in recent years, and a return to more normal conditions was expected. We have always known that we would have to give back some of our spectacular stock market returns, and we have planned for this event by maintaining a well-diversified investment portfolio.

At the end of the year, U.S. and international stock investments represented approximately 59 percent of our assets. U.S. and international

### investment mix by

**•** 40.4%

### **Asset Class**

- 1. Domestic Equities
- 2. Domestic Fixed Income
- 3. International Equities
- 4. Real Estate
- 5. Alternative Investments/ Private Equity
- 6. International Fixed Income
- 7. Cash Equivalents



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bonds made up 28 percent of our investments, while real estate and private equity investments represented 8 percent and 5 percent, respectively.

Our real estate and U.S. fixed income investments showed strong gains during the year and beat industry benchmarks, which helped offset our losses in the stock market. Our real estate investments earned a 14.4 percent return for the one-year period ended June 30, compared to an 11.2 percent return for the NCREIF Index. The pension fund's U.S. fixed income assets returned 12.6 percent, beating the 11.8 percent return earned by the Salomon Brothers Large Pension Fund Index.

Our international bonds posted a 7.4 percent loss but fared better than the industry benchmark, the Salomon Brothers Non-\$ World Government Index, which suffered a 7.5 percent decline.

In the equity markets, our international stocks fell 20.1 percent, compared to a 21.8 percent loss for the benchmark. Our U.S. stocks declined by 14 percent, but still outperformed the Wilshire 2500 index, which lost 15.4 percent. Our private equity portfolio posted an 11 percent loss, below its hurdle rate, but well in line with the private equity market. According to data released by Venture Economics, private equity investments lost 11.2 percent in the first nine months of the fiscal year.





At the end of the year, we held approximately \$92 billion in U.S. and international stocks, \$44 billion in U.S. and international bonds, \$13 billion in real estate, and \$7 billion in privately held investments.

### **Investment Policy and Strategy**

Asset allocation is one of the most important decisions made by the CalPERS Board of Administration. In the long run, it is the way in which the Board diversifies stocks, bonds, real estate, and other investments that determines the System's long-term performance. The CalPERS asset allocation mix is decided following an extensive review of a variety of factors. Economic scenarios of the global financial markets are simulated, and future liabilities and expected future contributions by employers are considered.

## performance Benchmarks

Asset Class	Benchmark	
Fixed Income		
Domestic	Salomon Brothers Large Pension Fund Index	
International	Salomon Brothers Non-\$ World Government Index	
Equities		
Domestic	Wilshire 2500 Index	
International	Financial Times Actuaries/IF Investable Index	
Alternative		
Investments	15 Percent Hurdle Rate	
Real Estate	NCREIF Property Index	

### CalPERS asset

### Allocation

Asset Class	Market Value (\$ Billion)	Current Allocation	Current Target*
Cash Equivalents	\$1.6	1.0%	0.0%
Fixed Income			
Domestic	\$36.3	23.3%	24.0
International	6.5	4.1	4.0
Total Fixed Income	\$44.4	28.4%	28.0%
Equities			
Domestic	\$63.1	40.4%	39.0%
International	28.5	18.3	19.0
Alternative Investments/Private Equity	7.4	4.8	4.0
Total Equities	\$99.0	63.5%	64.0%
Real Estate	\$12.6	8.1%	8.0%
Total Fund	\$156.0	100.0%	100.0%

<sup>\*</sup> Target allocation approved by CalPERS Board of Administration in May 2000.

the CalPERS investment

### Vision

### **CalPERS Investment Performance Goals**

The Board also establishes investment policies for each portfolio and annual performance benchmarks for each asset class. Investment policies are formally reviewed through the Board's Investment Policy Subcommittee and receive final approval by the Investment Committee.

growth of

### **Investment Portfolio**

Market Value five-year review (Dollars in Billions)



### **Strategic Goals**

- Produce long-term (five to 10 years) investment returns in excess of that required to meet the liabilities of the System, with a secondary objective of stabilizing employer costs.
- Produce above-average long-term investment results as compared to a peer universe of large pension funds.
- Within the boundaries of fiduciary duty:
  - —invest in a responsible manner; and
  - —invest in a way that considers benefits to California.

### Philosophical Framework

- Liabilities and, secondarily, costs to employers, drive the asset allocation decision.
  - actuarial needs require an equity-oriented investment program; and
  - —prudent diversification is required to control return volatility and stabilize employer costs.
- Investment initiatives within asset classes should be determined by inherent strategic advantages and System constraints.

### Advantages:

- -size;
- —long-term investment horizon;
- -reputation;
- —delegated authority (ability to act swiftly); and
- —global network
- To achieve long-term, above-average risk-adjusted returns, it is both desirable and necessary to pursue prudent, innovative, and bold investment decisions.
- Investment discipline is on a risk-versusreward basis.
- An activist approach to corporate governance adds value.

### **Alternative Investment Management**

New innovative investment vehicles and relationships with top investors served as our focus during the year in our Alternative Investment Management (AIM) Program. These investments were built with a strong organizational approach to private equity investing to improve long-term risk-and-return performance. We continued to evolve the program by strengthening our relationship with our investment partners and streamlining our investment process. Our goal was to become an attractive investor and ensure that CalPERS became the "Investor of Choice."

Early in the year we expanded our portfolio in the international markets and placed \$200 million in Central and Eastern Europe private equity investments. The new investments, led by leading bank and asset management groups in Central Europe, focus on regional investment opportunities in Poland, Hungary, and the Czech Republic. We invested \$150 million in Dresdner Kleinwort Benson Europe, L.P. and \$50 million in the Polish Enterprise Fund IV, L.P. We believe the economic growth in Central and Eastern Europe is a strong foundation for these investments and that the convergence of the Eastern and Western European economies has established a "Eurozone" capable of supporting a successful private equity investment program. Both funds invest in and build regional businesses and create joint ventures with major multinational corporate partners.

CalPERS continued to target direct private equity investments alongside large, sophisticated corporate partners and management teams. We invested \$425 million as part of a strategic financial relationship with The Carlyle Group, one of the world's largest global private equity firms. We invested \$250 million in a number of new Carlyle private equity funds, purchased a minority equity stake in the firm for \$175 million, and earmarked \$425 million for future business activity of the firm.

Nearly \$1.3 billion was invested during the year in three Alternative Investment Management program innovative investment vehicles. We invested \$275 million in the biotechnology industry as part of the CalPERS California Biotechnology Fund and \$475 million in private equity investments that serve regions in California that have been overlooked by traditional capital. In addition, we earmarked \$500 million to California Emerging Ventures, our venture capital investment vehicle.

# a closer look at AIM Investments & Commitments (Dollars in Billions)

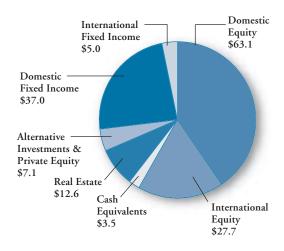
Program Types	Number of Investments	Total \$ Investment
Partnership Program	177	\$14.0
Co-Investments	16	0.4
Direct Investments	4	1.0
Investment Vehicle	7	3.8
Total	204	\$19.2

The \$275 million biotechnology investment is shared by three California-based biotech investments funds and one headquartered in New York. We made a \$100 million investment in Prospect Venture Partners II, a Palo Alto venture capital firm that focuses exclusively on life science investments; a \$100 million investment in MPM Biotech Crossover Fund, L.P., a South San Francisco fund that makes both private and public investments in the biotechnology industry; a \$25 million investment in Burrill Life Sciences Capital Partners, a fund sponsored by Burrill & Co., a San Francisco private merchant bank dedicated to life sciences through private equity investing, corporate partnering, and commercial development; and a \$50 million investment with EuclidSR, a partnership between New York-based Euclid partners and S.R. One, Limited, the venture capital arm of Smith Kline Beecham.

Our investments in the biotechnology arena are expected to help us build profitable investment relationships with large pharmaceutical companies. We believe the industry offers many compelling investment opportunities. New technologies are allowing for the development of better and more cost-effective products and drugs. These advancements, backed by CalPERS capital, can produce significant returns for the Fund while addressing unmet patient needs.

CalPERS also committed \$500 million to the venture capital industry as part of the System's California Emerging Ventures fund run by Grove Street Advisors of Wesley, Massachusetts.





The investment increased our exposure to the venture capital industry to more than \$2 billion. The infusion of new capital will allow us to continue to invest with the top-tier venture capital teams through market cycles and build on the Fund's investment success. California Emerging Ventures has invested with more than 74 investment teams in the venture capital investment arena, including some rapidly emerging names such as Insight Capital Partners, Oxford BioScience Partners, and Trident Capital. Preliminary performance analysis shows that the California Emerging Ventures fund generated a gross internal rate of return of 78 percent for all its portfolio investments as of September 30, 2000.

California's underserved urban and rural markets were the recipient of \$475 million in capital from CalPERS during the year. We approved hiring 11 venture capital and private equity firms to invest in California's urban and rural communities. We believe the absence of capital in these areas provides tremendous opportunity for the Fund. Investments are regionally focused to capitalize on California's expected growth, 70 percent of which is expected to occur in urban areas surrounding Los Angeles, San Francisco, and San Diego.

The outlook of our private equity portfolio is good. We have developed a reputation as a market leader and innovator and have a diversified portfolio across stages of opportunities, industries, and geographies. While still young, the portfolio is at its prime to capture investment opportunities offered in the recent market downturn. Companies are turning to private markets for financing, and valuations are low. We are well-positioned, given that only a small portion of our investment commitments have been drawn down and invested, resulting in available capital to make new investments.

### **Real Estate**

The purchase of high-quality real estate assets in strong markets across the country served as the primary focus of our real estate program during the year. One of the single largest retail transactions in the U.S. led our acquisition efforts when we acquired Bethesda, Maryland-based First Washington Realty Trust, Inc. for approximately \$800 million. The investment included 63 properties totaling 6.6 million square feet of supermarket-anchored neighborhood shopping centers located in key metropolitan areas of Washington, D.C., Baltimore, Northern Virginia, Philadelphia, and Chicago. The transaction strengthened our exposure on the East Coast and enabled us to capture high-quality grocery-anchored centers that will enhance cash flow and value to our Fund.

We reconfirmed our commitment to California's urban real estate markets by selecting four investment partners to invest \$200 million in the development of real estate projects in California urban settings. The investments, part of CalPERS California Urban Real Estate Initiatives program, harness the investment opportunities created by the growth of California's population and the shortage of general development in the State's urban locations. The partners we selected focus on the development and redevelopment of multi-family units, single family housing, industrial, office, and mixed-use property types in urban settings. They included \$60 million to Buchanan Street Partners, Inc., \$60 million to Capri/Capital Advisors, L.L.C., \$40 million to Institutional Housing Partners, Inc., and \$40 million to American CityVista Ltd.

We also made a \$125 million investment into CIM California Urban Real Estate Fund, L.P., an investment fund managed by the real estate firm CIM Group, L.L.C. The Fund targets investments in commercial and residential real estate projects in urban areas throughout California. CIM has an impressive resume of transactions that includes work with local community redevelopment agencies and city developers. CIM has redeveloped sites in San Diego's Gaslamp District, Old Town Pasadena, and Santa Monica's Third Street Promenade. Future California development projects include downtown San Diego and Old Downtown in Brea.

The convergence of California's technology and real estate industries and the energy crisis in California offered CalPERS a unique opportunity during the year to invest in companies that develop real estate technology infrastructure and services, and in real estate assets expected to benefit from providing space or services to tenants in high-growth sectors of the economy.

We made a \$15 million investment in a company that provides the most valuable amenity in California's crisis—low-cost energy. The company, RealEnergy, has created the largest commercial solar power system in the Western Hemisphere.

RealEnergy relies on photovoltaic power—essentially on-site energy systems such as solar, microturbine, natural gas engines, and other "green" power alternatives—deployed to generate electricity and heat that displaces power from

## a closer look at Real Estate (Dollars in Billions)

Core Portfolio	Market Value
Office	\$3.1
Industrial	2.8
Retail	2.2
Apartment	1.1
Total Core Portfolio	\$10.2
Specialized Real Estate Portfolio	
(housing, timber, California urban infill)	<b>\$2.7</b>
Total Real Estate	\$12.9

central plants that otherwise would be consumed during peak daytime hours.

Peak-hour electricity from our nation's power grid is the most expensive, and most vulnerable to spikes, surges, brownouts, and blackouts.

In a show of confidence in our investment, we teamed up with one of our real estate partners and RealEnergy to install almost an acre of advanced photovoltaic panels that sit atop three Southern California industrial buildings. The project included Carlsbad Pointe, a 320,000 square-foot industrial property owned by CalPERS.

As an investor in California real estate, we believe the advent of office buildings using their own electricity offer us many benefits. For tenants of our building, it provides a hedge against an unstable energy market. It increases the reliability of power systems and minimizes the risk of power outages. This is especially important to today's high-technology corporations.

### Stock Holdings

## Market Value (Dollars in Thousands)

Rank	Company	Shares	Market Value
1	General Electric Company	42,732,673	\$2,083,217
2	Microsoft Corporation	23,430,864	1,710,453
3	Citigroup, Inc.	24,599,761	1,299,851
4	Exxon Mobil Corporation	14,873,303	1,299,182
5	Pfizer, Inc.	29,772,089	1,192,372
6	AOL Time Warner, Inc.	19,215,108	1,018,400
7	Wal-Mart Stores, Inc.	19,083,650	931,282
8	International Business Machines	8,237,420	930,828
9	Intel Corporation	30,932,799	904,784
10	American International Group, Inc.	10,332,659	888,609

largest

### **Bond Holdings**

Market Value (Dollars in Thousands)

Rank	Company	Par Value	Market Value
1	PERS High Quality 1.0% due 12/31/2001	\$1,782,398	\$1,884,830
2	United States Treasury Bonds 6.25% due 5/15/2030	579,700	612,853
3	Deutsche Telekom International Finance BV 8.25% due 6/15/2030	537,000	544,813
4	United States Treasury Bonds 8.125% due 8/15/2019	424,650	528,757
5	United States Treasury Bonds 3.875% due 4/15/2029	421,231	449,925
6	United States Treasury Bonds 8.0% due 11/15/2021	343,040	427,352
7	United States Treasury Bonds 7.85% due 2/15/2021	300,000	367,641
8	Federal National Mortgage Association 5.0% due 9/15/2027	368,179	343,327
9	British Telecommunications PLC 8.625% due 12/15/2030	297,000	322,281
10	United States Treasury Bonds 9.25% due 2/15/2016	213,900	285,154

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### **Global Public Markets**

It was a volatile year in the public markets as most investors gave back some of the superior returns earned in the stock market in recent years. Although the market volatility appeared dramatic when it occurred, we fully anticipated these moments in our asset allocation process, and to a lesser extent, looked for bargains in the market.

On the international front, we selected 14 investment firms to actively manage between \$6 to \$11 billion of the our international equity assets. The lineup of investment firms included 10 international equity managers, three Pacific Basin managers, and one Japan manager selected from a world-wide search. We are confident that we have found a stable of managers that exemplify some of the best investment expertise needed to manage the complexity of the international equity markets.

The CalPERS Board also established a \$1 billion hedge fund program and tapped Blackstone Alternative Asset Management as its strategic advisor. Hedge funds employ alternative investment strategies that allow the fund manager to invest in both long- and short-term investments. Our program will target funds that take equity exposure while limiting the amount of credit exposure. We have made a commitment to invest cautiously, intelligently, and prudently in the hedge fund market, and expect to make 10 to 15 hedge fund investments, each between \$50 and \$100 million. Our focus will be conservative, experienced hedge fund managers who can add value to the CalPERS portfolio while not taking on additional risk or

leverage. We believe CalPERS has an important role in helping to shape the hedge fund market.

Additionally, we added five new managers to our innovative program that focuses on the development of new and emerging money managers. Through our program partners Strategic Investment Management and Progress Putnam Lovell Advisors, L.L.C., we hired Golden Capital Management, Broadmark Asset Management, Shenandoah Asset Management, Philippe Asset Management, and Denali Advisors. We allocated more than \$600 million in international and U.S. assets and took minority equity stakes in each firm. With CalPERS assets and capital, these firms are expected to receive the support and assistance they need to become significant players in the institutional marketplace. As these firms grow and mature, we will realize profits from our equity position and returns on our investment portfolio.

In an unprecedented decision, the CalPERS Board voted to sell our \$525 million in primary tobacco holdings during the year. The action followed months of debate and testimony on the economic effects of divestment. We took the action because of the unusual and unique

a closer look at

### **Global Public Markets**

(Dollars in Billions)

Investments	Fixed Income	Equities
Domestic	\$36.3	\$63.1
International	6.5	28.5
Total	\$42.8	\$91.6

### International Equity & Fixed Income Investments

### **Country Diversification**

(Dollars in Billions)

Up to \$25 million	
Argentina	Indonesia
Bermuda	Israel
Cayman Islands	Luxembourg
Czech Republic	Papua New Guinea
Gabon	Peru
Greece	Philippines
Hungary	Thailand
Iceland	Turkey
\$25 – \$50 million	
Austria	New Zealand
Chile	
\$50 - \$100 million	
Malaysia	Portugal
\$100 - \$300 million	
Belgium	Mexico
Brazil	Norway
Denmark	Poland
European Currency	Singapore
Ireland	South Africa
Korea	Taiwan
\$300 - \$500 million	
Finland	
\$500 million – \$1 billion	
Australia	Spain
Hong Kong	Sweden
More than \$1 billion	
Canada	Japan
European Currency Unit	Netherlands
France	Switzerland
Germany	United Kingdom

Italy

situation that the tobacco industry faces. We believed the large amount of legal, regulatory, and legislative action in the industry could substantially reduce our shareholder value in tobacco, and the action was taken to protect our members' assets in the long term.

We consider primary tobacco holdings to be those companies that are directly involved in the manufacture of tobacco products, including industry giants such as Philip Morris, Loews Corp., and British American Tobacco. Our decision means that we will have tobacco-free indices and benchmarks for all of our passively-managed investments. Approximately \$365 million of our tobacco holdings is held in U.S. portfolios that are managed for the defined benefit plan, Legislators' Retirement Fund, Volunteer Firefighters' Fund, Judges' I and Judges' II Retirement Systems, Supplemental Contributions Program, and Long-Term Care Program. More than \$158 million is in international tobacco holdings. In total, our tobacco stocks represent less than one percent of the System's passively-managed equity and fixed income investments.

And once again, we issued our "Focus List" of Corporate America's poorest performers. The companies included Warnaco, Circuit City, Lance, Metromedia, and Ralcorp. CalPERS pushed a variety of corporate governance improvements at these companies in an effort to generate better returns and long-term performance. Several companies agreed to corporate governance changes, including electing independent directors,

appointing lead independent directors, conducting board self-evaluations, and adding independent directors to their audit, compensation, and nominating committees.

2001 corporate governance

### **Focus List**

Circuit City Lance Metromedia Ralcorp Warnaco

### California Investments

CalPERS investments have been a critical part of the economic fabric of California since the early 1980s, and our California investment portfolio has grown steadily over the last five years. As of June 30, 2001, approximately 13.4 percent—or \$20.9 billion—of our \$156 billion Fund was invested or earmarked for investment in California.

California investments are part of each asset class in our investment portfolio and are expected to deliver a return commensurate with similar investments of comparable risk. The CalPERS Board considers California investments and all other investments on the sole basis of investment merit. Investments must be financially comparable to other available investment alternatives.

Investments in California may have the ancillary benefit of creating jobs, housing, and improvements to the general infrastructure and, more importantly, serving the broad interests of CalPERS members. By strengthening

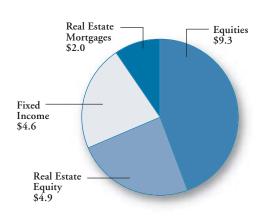
the State's economy and the well-being of our employers, our California investments help promote the continued ability of employers to make contributions to the System.

Today we invest more than \$9 billion in companies that make their home in California. These include established publicly-traded corporations and young entrepreneurial businesses that rely on CalPERS private placement capital for growth and expansion. Our fixed income assets, largely held in corporate bonds, total approximately \$766 million. We are one of the largest California real estate developers, financing more than \$5 billion worth of single family homes and general real estate holdings. In fact, CalPERS has committed \$40 million to invest in senior housing throughout the State. And our Member Home Loan Program, implemented in 1989, has provided nearly \$10 billion in mortgages to nearly 71,000 California families.

### **CalPERS**

### California Investments

Market Value \$20.8 Billion (Dollars in Billions)



For additional copies of this report, or a copy of the June 30, 2001 Comprehensive Annual Financial Report, contact the CalPERS Office of Public Affairs at (916) 326-3991.

A complete listing of CalPERS investments and securities can be found online at www.calpers.ca.gov



California Public Employees' Retirement System

Lincoln Plaza 400 P Street P.O. Box 942701 Sacramento, CA 94229-2701

(916) 326-3829 Telecommunications Device for the Deaf: (916) 326-3240 Fax: (916) 326-3410

www.calpers.ca.gov

